

FINANCE

total exposure to various sectors, industries and countries, freezing them at existing levels. (EDC will not disclose those limits). "I went to Montreal to see [then Bombardier CEO] Bob Brown, and I told him that we were too exposed to his company," Lavelle recalls. He also informed the company that the new lending caps might restrict EDC's ability to finance future jet sales. "We were not out to square the peg with Bombardier," says Lavelle. "We wanted it to survive and be a successful company—albeit one that was a little more private-sector oriented."

Lavelle's four-year term as EDC chair ended in late 2001, but risk management remains a focus there. Today, its transportation division employs 10 aerospace finance specialists, who keep close tabs on the industry. Airlines seeking export loans face a credit process "very similar to what a normal bank would do," explains Taso Georgiou, financial services manager at EDC. That process includes collecting detailed information—everything from company financials and independent credit opinions to business strategy and meetings with

two deals was worth more than \$1 billion, and each was a response to the perceived level of support offered by the Brazilian government to Embraer, Bombardier's main competitor in the regional jet market.

SOON AFTER TELLIER came aboard, in late 2002, senior Bombardier representatives met several times with officials at Industry Canada, the Department of Foreign Affairs and International Trade and the Department of Finance. They complained that EDC had "virtually run out of capacity" to support future regional jet sales, and requested more breathing room. Bombardier's team knew exactly which arguments would resonate with government officials. In slide-show presentations (obtained by *Canadian Business* through the federal Access to Information Act), they pointed to the hundreds of millions of dollars the company spends on materials and equipment from smaller Canadian aerospace companies, such as Héroux-Devtek and IMP Aerospace. If Bombardier was forced to cut production by 100 planes, they claimed, it

forget, Tellier has made clear what's at stake. "If we are unable to secure financing for our customers, we will need to cut back production immediately," he told a Vancouver audience in December. "[That] means significant job cuts for the Canadian aerospace industry." Playing hardball, Tellier told one reporter that "if that kind of support is not possible in this country, we'll draw some conclusions—like where we're going to make planes."

Tellier's tactics have produced some resentment at EDC. But if anything, Bombardier's export-financing needs seem likely to increase. Short term, some credit analysts worry that its customers will continue to encounter difficulty financing aircraft purchases. "Further deterioration could impede the ability of some airlines to accept deliveries or arrange financing," warned Standard & Poor's analyst Kenton Freitag in a recent report. Further down the road, Bombardier could face more competition in the regional jet business. For one thing, Brazil's share of the regional jet market has steadily increased, and BNDES shows no signs of exhaustion. The Chinese government provides a favourable tariff environment for China Aviation Industry Corp.'s first regional jet, which is due in two years. Boeing plans to enter the market, too.

EDC insists it has more capacity, but acknowledges it probably can't meet Tellier's expectations. Already, its aerospace portfolio seems highly speculative: some 64% of it was below investment grade at the end of 2002 and, due to persisting industry turbulence, that number is expected to increase when EDC reports its 2003 figures in April. All eyes then turn to the Canada Account. But senior government ministers aren't talking about future aerospace policy plans. "Bombardier has been making these noises," says one spokesman. "We're monitoring them, we're studying them. But there has been no government response."

Observers have often discounted export financing's importance to Bombardier, waved it off as a reality of aerospace, or simply assumed that government support will continue. That could prove a serious oversight. Tellier has put employees, investors and government officials on notice that his company's prospects very much depend on Ottawa's appetite for risk. Should that appetite be lost any time soon, Tellier's axe may fall again—this time on the heads of Canadian aerospace workers.



If Bombardier was forced to cut production by 100 planes, they claimed, it would destroy thousands of Canadian jobs

management. All of it is aimed at assessing a potential client's ability to repay a loan. EDC often hires appraisers to assess the current and future value of the aircraft to be financed—in case it must be seized and sold to recover a default. "We continually operate within that overriding risk framework," says Kevin O'Brien, EDC's vice-president of transportation.

EDC's risk management practices are designed to protect the public purse, and they help explain why just 2.4% of its aerospace loan portfolio is currently in default. They can be circumvented, however. Even after EDC has rejected a proposal, the federal cabinet may decide to finance transactions deemed by the minister of international trade to be in Canada's "national interest." EDC negotiates, executes and administers those deals; the Canadian government assumes all the risk directly, under a separate loan pool known as the Canada Account.

Of the Canada Account's six transactions since October 2001, two were to Bombardier's customers: Northwest Airlines and Air Wisconsin Airlines. Each of those

would destroy thousands of Canadian jobs and carve nearly \$1.3 billion from the nation's economy.

The federal government was clearly moved. It increased the financing available to Bombardier's customers under the Canada Account by \$1.2 billion. Quebec's provincial government followed up by making an additional \$600 million in loan guarantees available through one of its financing arms, Investissement Quebec. EDC expects to make use of the increased room in the Canada Account later this year. "We're still looking at who the candidates will be, and how much," O'Brien says.

Notwithstanding last year's victories and a recent improvement in the availability of private-sector financing, Tellier continues to lobby for more support. He wants EDC to raise its caps and significantly increase the total loans available for jet purchases. He apparently has little sympathy for EDC's risk management concerns, or even its mandate. (He unsuccessfully lobbied to obtain EDC backing for Air Canada's jet purchases, which hardly qualify as exports.) Lest anyone

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